



City of Santa Barbara
Airport Department

Memorandum

DATE: May 19, 2010
TO: Airport Commission
FROM: Karen Ramsdell, Airport Director
SUBJECT: Food & Beverage and Retail Concession Agreements

RECOMMENDATION: That Airport Commission, Lease Review Subcommittee:

- A. Receive a report on the Concession solicitation process;
- B. Recommend the selection of First Class Concessions, Inc as the food and beverage concessionaire and M/E, Inc. as the news and gift concessionaire, for the new Airline Terminal; and
- C. Recommend approval of ten (10) year lease agreements effective upon the adoption of the enabling ordinance, with:
 - First Class Concessions, a California Corporation, for operation of a 1,000 square foot pre-security and a 1,900 square foot post-security food and beverage concession for a base monthly rental of \$1,000 or percentage rent, whichever is greater; and
 - M/E, Inc., a California Corporation, for operation of an 885 square foot news and gift concession for a base monthly rental of \$1,000 or percentage rent, whichever is greater.

DISCUSSION:

Background

Airport Concessions provide an important service that meets traveler needs and improve the travel experience while generating revenue for the Airport. The new Airline Terminal building provides for an expansion of concession services and improves the usage of space. There are two food and beverage locations, 1000 square feet pre-security on the ground floor, and 1,900 square feet post security on the second floor. Retail space has been identified in three post security locations ranging from 480, 570, and 885 square feet. Consistent with the design of the facility, the concessions will be developed with a unifying theme and create a "sense of place" for travelers.

To assist staff with the solicitation of concessionaires, the Airport contracted with Jacobs Consultancy, a company specializing in airport financial and leasing activities. Jacobs coordinated with staff on the development of the concession program. The first effort was an Airport Concessions Outreach meeting, held on December 10, 2009, to encourage community participation in the concessions program and to promote diversity and create business opportunities for local, regional and national companies. More than 50 individuals attended the

meeting and gained a better understanding of the challenges and requirements of operating a concession at the Airport.

Operating requirements differ substantially from “street retail” in that operating hours are tied to the flight schedule with expected hours of 5 a.m. to 11 p.m. daily. All units will be required to be operated every day, including holidays, and may be required to be open during times that may not be profitable. Passenger traffic varies by season, month, and day of the week. Additionally, security requirements are stricter requiring a 10 year background check and finger printing for employees.

Request for Proposals

As part of the Request for Proposals (RFP) development, the Airline Terminal design architects prepared a Concessions Design Manual. The Manual was prepared to guide Concessionaires in the design and construction of facilities at Santa Barbara Airport. The Manual outlines procedures, policies, goals and requirements for developing or modifying facilities.

The RFPs provided information on the proposal process, specific definitions pertaining to the Airport and the concession program, current concession program data, description and location of the available concession spaces (see Attachment 1), evaluation criteria, and incorporated a copy of the Concessions Design Manual.

On February 9, 2010, staff distributed separate Request for Proposals (RFP) for both the Retail and Food & Beverage concessions to attendees of the December Outreach meeting and other interested parties. The information was also posted on the Airport's website and sent to those companies that specialize in Airport concessions.

Mandatory pre-proposal meetings were held on February 18, for the food and beverage concession and another meeting for the retail concession. After the mandatory pre-proposal meeting, written questions were submitted by the companies and two separate addenda were distributed.

Submittal Requirements

Proposers were required to submit information regarding;

- the proposer's experience,
- brand and concepts,
- facility design and scope of improvements,
- proposed unit management and operations plan,
- proposed minimum facility build out investment,
- financial projections,
- capital investment,
- financial background information, and
- proposal deposit of \$5,000

Proposals Received

Only one proposal was received for each category which met the minimum requirements. Based on recent articles in industry trade magazines, this is not unusual for small airports.

SSP America, Inc., the current food and beverage provider, did not submit a proposal. However, they indicated by letter, dated April 1, 2010, that they would be willing to continue to operate the food and beverage concession if no proposals were received. They requested that the Airport undertake the build out of the concession space in the new Terminal based upon SSP's concept plan. SSP would provide the kitchen equipment, AV equipment, furniture and point of sale terminals.

The food and beverage proposal was received from First Class Concessions, Inc., a certified DBE, teamed with a regionally recognized branded company, The Coffee, Bean & Tea Leaf to operate in both locations (Attachments 2 & 3). The retail proposal was submitted by the current operator; M/E Inc. for the larger concession space (Attachment 4).

The Airport will either do a separate solicitation or enter into negotiations for the remaining two retail concession spaces at a later date.

Food and Beverage Proposal

First Class Concessions, Inc. is a 100% FAA certified Disadvantaged Business Enterprise (DBE), and the proposal features two franchised Coffee Bean & Tea Leaf locations, one pre-security and one post-security sharing the space with a Costa Terraza tapas bar. First Class Concessions has successfully teamed with The Coffee Bean & Tea Leaf in other Airports.

Based in San Diego, the combined airport concession experience of First Class Concession's executive team is well over 40 years. Current food and beverage locations include: Panama City Bay County Airport in Panama City, Florida, Will Rogers World Airport in Oklahoma City, Oklahoma, Sky Harbor International Airport in Phoenix, Arizona, St. Petersburg Clearwater International Airport in St. Petersburg, Florida, Fort Wayne International Airport in Fort Wayne, Indiana.

The President of First Class Concessions, Tasneem Vakharia, was associated with Creative Host Services, Inc. when they were chosen to construct and operate the Terminal restaurant and grab and go location in the current Terminal in 2003. She has over twenty years of experience in the food and beverage concession industry. The build out of both facilities was accomplished on time as promised, and the rental from the concessionaire was paid in a timely manner during their operation of the facilities.

The company's financial documents, which were reviewed by the City Finance Department, met the minimum criteria for operation of the concession.

The concept design for the franchised Coffee Bean & Tea Leaf locations and the Costa Terraza restaurant and bar was reviewed by the Terminal Project Architect and found to substantially meet the criteria established in the Concessions Design Manual. First Class Concessions is proposing to invest \$164 per square foot for the build out of the pre-security Coffee Bean & Tea

Leaf Location and \$216 per square foot for the post-security Coffee Bean & Tea Leaf and Costa Terraza location.

Both Coffee Bean & Tea Leaf locations proposed menu will feature coffee and espresso drinks, ice blended drinks, and tea. They will also serve an assortment of baked goods and grab and go items, including: sandwiches, a bean burrito, salads, fresh fruit and yogurt.

The Costa Terra tapas bar will have a larger menu and include a full bar featuring local wines. The menu will include appetizers, panini, flat bread, deli and grilled sandwiches, soups, salads, and desserts.

The lease establishes a minimum annual rental of \$36,000 plus percentages. The proposed percentage rents for the food and beverage locations, based on enplanements, are:

Landside – Coffee Bean & Tea Leaf

Enplanements:	Less than 250,000	250,000 to 500,000	500,000 and up
Specialty Coffee (Branded)	7%	8%	8%
Food and Beverage (Non-branded, non alcohol)	7%	10%	12%

Airside – Costa Terraza Food & Spirits and Coffee Bean & Tea Leaf

Enplanements:	Less than 250,000	250,000 to 500,000	500,000 and up
Specialty Coffee (Branded)	7%	8%	8%
Food and Beverage (Non-branded, non alcohol)	7%	10%	12%
Alcohol	7%	12%	15%

Enplanements for 2009 were 376,441. The average enplanements for the last five years were 414,459. The Airport anticipates that enplanements will increase by approximately 1% per year. The location of the food and beverage locations insures that every passenger has an opportunity to purchase a product, unlike the current Airline Terminal with only pre-security locations tucked into the central lobby.

The Proforma Operating Statement included in the proposal projects that with a total of 400,000 enplaned passengers, using the percentages listed above, First Class Concessions projects earnings of \$3 per enplaned passenger, or \$1,200,000 per year, returning total annual rental to the Airport of \$114,225.

Compared with the calendar year sales of the current food and beverage operation (CY 2009 \$771,772 or \$2.05 REP), the first full year of operations in the new Airline Terminal, the food and beverage sales would increase by 55% and rental to the Airport would increase 111%.

Retail Concession

M/E, Inc. has operated the News & Gift concession at the existing Terminal since 1983. A local woman-owned business, M/E, Inc. is certified as an FAA approved Disadvantaged Business Enterprise (DBE). In the over twenty years that M/E, Inc. has been associated with the Airport they have been a tenant in good standing, operating in inadequate space and under difficult conditions. M/E also operates the Read & Post in Montecito, the Front Page in Goleta, and the former Enlightened Sights store in Paseo Nuevo.

The company's financial documents, which were reviewed by the City Finance Department, met the minimum criteria for operation of the concession.

M/E's proposal includes the build out of the 885 square foot post-security retail concession. M/E is proposing to invest \$50 per square foot for the build out of the post-security news and gift retail concession. The concept design was reviewed by the Terminal Project Architect and found to substantially meet the criteria established in the Concessions Design Manual.

The gift shop proposes to carry reading materials: books, magazines, and newspapers, toiletries, over the counter medications, Santa Barbara souvenirs, travel items, business needs, children's toys and games, bottled water and candy and snack foods. M/E is also exploring the possibility of selling wine by the bottle to be carried aboard the aircraft and See's Candies.

The proposed percentage rents for the news and gift items, based on gross receipts, are:

Airside – New & Gift

Gross Receipts:	\$0-\$500,000	\$500,001 - \$750,000	Greater than \$750,000
News	7%	7%	7%
Gifts & Sundries	8%	10%	12%

The gross receipts for 2009 submitted by M/E, Inc. totaled approximately \$456,347 with annual rental to the Airport of \$23,534. Sales were impacted by the location of the gift shop in the Gates 8&9 Holdroom for the first three months of the year. Gift shop sales per enplaned passenger currently total \$1.09 per enplaned passenger.

M/E's Proforma Operating Statement for the new post-security location lists total gross sales of \$500,000 in the first year an increase of 9.5% over CY 2009, with a rental to the Airport of \$38,150. Based on the current year enplanements, the revenue per enplane passenger would increase by 21% or \$1.35. Airport staff and Jacobs Consultancy view this as a very conservative projection.

Evaluation Process

An Evaluation Committee composed of Airport and Finance Department staff and the Terminal Project Architect met to evaluate the proposals and the design concepts for the concession space. Both proposals were evaluated based on the criteria set forth in the RFP. The evaluation factors were:

- Retail Concept/Plan
- Capital Investment
- Experience and Quality of Past Performance
- Facility Design and Quality of Improvements
- Financial – Pro-Forma Operating Statement
- Management and Operations Plan

The Evaluation Committee found that each of the proposers submitted a complete proposal package, and has the qualifications, experience and financial resources necessary to fulfill the obligations undertaken in the Concession Agreement.

Proposed Lease Agreements

Term – Initial Term period from execution date to first day of opening of the new Terminal.

Primary Term – ten years from opening and occupancy of the new Terminal.

Obligation to Construct – The Airport will provide the shell with utilities brought to the locations. The tenants have an obligation to obtain permits and to construct improvements so that space is ready for business when the Terminal opens. Costs associated with the improvements are the responsibility of the tenant.

Mid-Term Refurbishment – tenant has an established investment amount per square foot for refurbishment/updating of the space after five years.

Obligation of Concessionaire – provides levels of service and standards for operation including pricing policy, hours of operation, personnel, employee parking, delivery of goods, cash and record handling requirements, fidelity bonds, shopping service, etc.

NOTE: *Street Pricing* - Airport staff surveyed eleven airports in the western United States regarding their pricing policies. Santa Barbara's proposed pricing policy for both concessionaires will require all items to be priced at no more than 10% above street pricing. The Airport Director will have the authority to require "market basket" studies to confirm that street pricing is being observed, and approval of all menu items and prices, which is consistent with industry standards.

Rental – each lease sets a Minimum Annual Guarantee: \$12,000 for retail and \$36,000 for food and beverage, plus the percentage rentals as proposed, and utilities.

Solid Waste Management – each lease includes trash and recycling standards to comply with the Airport and City of Santa Barbara solid waste policies.

General terms and conditions – lease provisions as included in all City Airport leases.

Next Steps

June: Lease Agreements will be submitted to City Council for approval (due to ten-year term).

June – October: Concessionaires will finalize construction drawings, obtain building permits, health permit for the restaurant.

November – February: Tenant improvements constructed and completed.

March: Testing of all systems in preparation of opening the new Terminal.

April: Scheduled opening of the New Airline Terminal.

Airport Commission Lease Review Subcommittee

On May 13, 2010, the Lease Review Subcommittee met and after a thorough review and discussion of the retail and food and beverage proposals, recommended award of the retail and food & beverage concession agreements.